



financial section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Alex Penelas, Mayor, and
Honorable Chairperson and Members
Board of County Commissioners
Miami-Dade County, Florida:

We have audited the accompanying financial statements of the Miami-Dade Water and Sewer Department of Miami-Dade County, Florida (the Department) as of and for the year ended September 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the prior period were audited by other auditors whose report dated January 24, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and with auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements referred to above are intended to present the financial position, and changes in financial position, and cash flows of the Miami-Dade Water & Sewer Department of Miami-Dade County, Florida and do not purport to, and do not, present fairly the financial position of Miami-Dade County, Florida as of September 30, 2003 and 2002 and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of September 30, 2003 and 2002, and changes in its financial position and in its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2004 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rachlin Cohen & Holtz LLP

One Southeast Third Avenue • Tenth Floor • Miami, Florida 33131 • Phone 305.377.4228 • Fax 305.377.8331 • www.rachlin.com

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Honorable Alex Penelas, Mayor, and
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The management's discussion and analysis on pages 24 through 27, is not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Department. The introductory section, supplementary financial data, and statistical tables are presented for purposes of additional analysis and are not a required part of the financial statements of the Department. The supplementary financial data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements of the Department. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rachlin Cohen & Holtz LLP

Miami, Florida
January 4, 2004

Management's Discussion & Analysis

OVERVIEW

The following Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements of the Miami-Dade Water and Sewer Department (the Department) for the fiscal year ended September 30, 2003. The MD&A represents management's examination and analysis of the Department's financial condition and performance. It should be read in conjunction with the financial information of the transmittal letter in the introductory section and the financial statements in the financial section of this report. The financial statements include balance sheets; statements of revenues, expenses and changes in net assets; statements of cash flows; and notes to the financial statements.

The balance sheets present the financial position of the Department as of a specific date. It provides information about the nature and amount of resources (assets) and obligations (liabilities), with net assets being the difference between assets and liabilities. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Department's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs which might not coincide with the timing of the related cash flows.

The statements of cash flows present the cash activities of the Department segregated in the following four major categories: operating, non-capital financing, capital and related financing, and investing. This statement also presents the changes in cash and cash equivalents of the Department.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of data provided in the statements.

FINANCIAL POSITION

A summary of the Department's net assets and related changes for the fiscal years ended September 30, 2003 and 2002 is shown in the following page. Total net assets as of September 30, 2003, were \$2.1 billion. The Department's net assets decreased from last year by \$14.4 million, or by 0.7%, primarily due to an increase in expenses of \$27.2 million, or by 6.4% from the previous year. The unrestricted portion of net assets (available to meet ongoing and future obligations of the Department) had a decrease of \$49.8 million, or 21.1%, from fiscal year 2002.

Operating and maintenance expenses increased by \$21.5 million, or by 10.9% from the previous year. Increased employee compensation and related fringe benefits, supplies, property insurance and fuel expenses made up the majority of the increase. The Transfers to the County's General Fund increased by \$6.9 million, or by 21.1% from fiscal year 2002. The increase was primarily due to the County's utilization of certain system settlement funds, support for election costs, and additional needs by the County to fund Parks and Recreation capital projects. The \$3.1 million increase in depreciation expense was offset by a reduction of \$4.4 million in interest expense, net of capitalized interest.

Management's Discussion & Analysis

The increase in operating revenues of \$8 million over the previous year was offset by a decrease in interest income of \$6.7 million, or 20.3 %, due to decreases in the Department's portfolio and market yield for the short and medium term investments.

The Board of County Commissioners has approved an increase of the Department's service rates for fiscal year 2004. Management believes that the rate increase was needed in order for the Department to recover its increasing costs in providing services to its customers.

	(in thousands)	
SUMMARY OF NET ASSETS	2003	2002
Current and Other Assets	\$1,041,813	\$1,120,808
Capital Assets, net	<u>2,960,469</u>	<u>2,932,784</u>
Total Assets	<u>4,002,282</u>	<u>4,053,592</u>
Long-term Liabilities	1,690,817	1,718,391
Other liabilities	<u>165,671</u>	<u>174,976</u>
Total Liabilities	<u>1,856,488</u>	<u>1,893,367</u>
Net Assets:		
Invested in capital assets, net of debt	1,585,586	1,586,602
Restricted	373,628	337,273
Unrestricted	<u>186,580</u>	<u>236,350</u>
Total Net Assets	<u>\$2,145,794</u>	<u>\$2,160,225</u>
SUMMARY OF CHANGES IN NET ASSETS	2003	2002
Water operating revenues	\$ 154,756	\$ 151,095
Wastewater operating revenues	207,346	203,012
Interest Income	26,153	32,820
Other nonoperating revenues	<u>2,330</u>	<u>1,480</u>
Total revenues	<u>390,585</u>	<u>388,407</u>
Operating & maintenance expenses	218,391	196,872
Depreciation	117,780	114,642
Interest expense	75,473	79,846
Other nonoperating expenses	876	876
Transfers to County's General Fund	<u>39,996</u>	<u>33,035</u>
Total expenses	<u>452,516</u>	<u>425,271</u>
Deficiency before contributions	(61,931)	(36,864)
Capital Contributions	<u>47,500</u>	<u>57,177</u>
Increase (decrease) in net assets	<u>(14,431)</u>	<u>20,313</u>
Net assets at beginning of year	<u>2,160,225</u>	<u>2,139,912</u>
Net assets at end of year	<u>\$2,145,794</u>	<u>\$2,160,225</u>

CAPITAL ASSETS

The following table summarizes the Department's capital assets, net of accumulated depreciation, for the fiscal years ended September 30, 2003 and 2002 (in thousands). Total capital assets increased by \$27.7 million, or 1%, over the previous year. This increase is due to capital additions, net of plant retirements, of

Management's Discussion & Analysis

\$129.7 million offset by \$100.9 million for depreciation. Additional information in changes in capital assets can be found in Note 4 to the financial statements.

	<u>2003</u>	<u>2002</u>
Land	\$ 34,519	\$ 30,390
Structures and improvements	2,259,057	2,230,037
Equipment	326,558	326,757
Construction work in progress	340,335	345,600
Total capital assets	<u>\$2,960,469</u>	<u>\$2,932,784</u>

This year's major expenditures in capital assets included:

Water projects:

- Transmission mains, meters and services (\$25.4 million)
- Treatment facilities (\$13.2 million)
- General building improvements (\$7.5 million)
- System wide improvements (\$5.2 million)
- Transportation equipment (\$4.5 million)
- Computer systems (\$3.7 million)
- Wellfields (\$1.4 million)

Wastewater projects:

- Treatment facilities (\$19.4 million)
- Force mains (\$12.1 million)
- Gravity mains and services (\$8.5 million)
- Pump stations (\$7.8 million)
- Infiltration and inflow reduction program (\$4 million)

Budgeted capital expenditures for fiscal year 2004 amount to \$198.9 million and include \$83.4 million in water projects and \$115.5 million in wastewater projects.

LONG-TERM DEBT

Long-term debt outstanding (including current portion) at September 30, 2003 and 2002 is presented in the following table (in thousands). The year 2003 shows a decrease of \$28.3 million from the previous year.

	<u>2003</u>	<u>2002</u>
Revenue Bonds	\$1,553,293	\$1,581,183
State Loan Obligations	146,699	146,965
Notes payable	754	941
Total long-term debt	<u>\$1,700,746</u>	<u>\$1,729,089</u>

During 2003 various amendments to the state revolving fund loan agreements reduced the related commitments by \$11.4 million. Draws made on state revolving fund commitments and recorded as debt, including capitalized interest, were \$9.9 million in 2003. Current long-term debt maturities were met in amount of \$40.3 million. Additional long-term debt details can be found in Note 5 to the financial statements.

Management's Discussion & Analysis

In October 2003, the Department refunded its Dade County Revenue Refunded Bond, Series 1993 by issuing the Water and Sewer System Revenue Refunding Bond, Series 2003, taking advantage of low interest rates. By issuing these bonds, the Department saved over \$18.5 million (or 7.23% of the refunded bonds) in net present value savings in interest costs.

In March 2004, the Department sold a swap option to a financial institution in connection with the Water and Sewer System Revenue Bonds Series 1995 (Series 1995 Bonds), whereby it received an upfront aggregate payment of approximately \$26 million (present value savings if the bonds were refunded in today's market). If the option is exercised, the Department would be required to refund all or a portion of the callable Series 1995 Bonds on the first call date and enter into an interest rate swap or buy back the option. This transaction will enable the Department to refund the Series 1995 Bonds for savings.

The Department is required to maintain rates and charges sufficient to meet two sets of debt service coverage requirements. First, adjusted annual net operating revenues must equal or exceed 110 percent of the debt service on revenue bonds. Primary debt service coverage ratio for the year was 1.83, which is greater than the required level of 1.10. Second, adjusted net operating revenues, after payment of revenue bond debt service, must be at least equal to 115 percent of the debt service for the state loan obligations. The Department met the secondary debt service coverage with a ratio of 5.7, which is greater than the required ratio of 1.15.

The well-regarded Standard and Poor's Rating Services raised its rating on the Department's \$1.6 billion in outstanding water and sewer system revenue bonds from an 'A' to an 'A+', during fiscal year 2003. Standard and Poor's acknowledged the Department's "steady progress in upgrading the water and wastewater systems and addressing regulatory issues while keeping rates low and sustaining solid coverage."

REQUEST FOR INFORMATION

Questions concerning this report or requests for additional information should be directed to Dana M. Moss, Sr., Assistant Director - Finance at 786-552-8104 or at his office located at 3071 S.W. 38th Ave., Miami, Florida 33146.

Balance Sheets

	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	44,581	\$ 76,623
Investments		115,660	141,487
Accounts receivable (net of allowance for uncollectible accounts of \$20.8 million in 2003 and 2002)		71,947	72,615
Inventory of materials and supplies		20,078	20,592
Restricted cash and cash equivalents		<u>88,113</u>	<u>103,589</u>
Total current assets		<u>340,379</u>	<u>414,906</u>
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		250,398	54,597
Investments		429,483	630,245
Contracts receivable		294	466
EPA grants receivable		<u>-</u>	<u>76</u>
Total restricted assets		<u>680,175</u>	<u>685,384</u>
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		15,888	16,764
Other deferred charges, net		3,075	3,754
Long-term receivable		<u>2,296</u>	<u>-</u>
Total other assets		<u>21,259</u>	<u>20,518</u>
<i>CAPITAL ASSETS:</i>			
Land		34,519	30,390
Structures and improvements		3,038,441	2,941,007
Equipment		<u>710,751</u>	<u>678,474</u>
Utility plant in service before depreciation		3,783,711	3,649,871
Less accumulated depreciation		<u>1,163,577</u>	<u>1,062,687</u>
Net utility plant in service		2,620,134	2,587,184
Construction work in progress		<u>340,335</u>	<u>345,600</u>
Total capital assets		<u>2,960,469</u>	<u>2,932,784</u>
Total noncurrent assets		<u>3,661,903</u>	<u>3,638,686</u>
Total assets		<u>\$ 4,002,282</u>	<u>\$ 4,053,592</u>

(Continued)

Balance Sheets

(Continued)	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	41,853	\$ 37,293
Customer and developer deposits		16,350	15,979
Current portion of long-term debt		7,695	7,622
Accrued interest payable		561	730
Rebatable arbitrage earnings		3,103	2,348
Liability for compensated absences		7,402	6,842
Other liabilities		594	573
Total current liabilities (payable from unrestricted current assets)		<u>77,558</u>	<u>71,387</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		11,100	15,718
Retainage payable		4,329	7,413
Current portion of long-term debt		33,743	32,921
Accrued interest payable		34,708	44,322
Liability for self-insurance		4,233	3,215
Total current liabilities (payable from restricted current assets)		<u>88,113</u>	<u>103,589</u>
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		1,522,018	1,551,263
State loan obligations, net		136,734	136,529
Notes payable, net		556	754
Liability for self-insurance		15,782	15,782
Liability for compensated absences		15,727	14,063
Total noncurrent liabilities		<u>1,690,817</u>	<u>1,718,391</u>
Total liabilities		<u>1,856,488</u>	<u>1,893,367</u>
NET ASSETS			
Invested in capital assets, net of related debt		1,585,586	1,586,602
Restricted for:			
Capital projects		205,697	170,471
Debt service		167,931	166,802
Unrestricted		<u>186,580</u>	<u>236,350</u>
Total net assets		<u>2,145,794</u>	<u>2,160,225</u>
Total liabilities and net assets		<u>\$ 4,002,282</u>	<u>\$ 4,053,592</u>

The accompanying notes to financial statements are an integral part of these statements.

Statements of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>OPERATING REVENUES:</i>			
Water		\$ 154,756	\$ 151,095
Wastewater		<u>207,346</u>	<u>203,012</u>
Total operating revenues		<u>362,102</u>	<u>354,107</u>
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Water source of supply		5,248	4,728
Water power and pumping		2,670	1,803
Water purification		38,412	34,466
Water transmission and distribution		21,086	19,357
Wastewater collection system		13,193	12,793
Wastewater pumping		23,115	22,828
Wastewater treatment		48,579	43,086
Customer accounting		4,573	7,090
Customer service		15,342	14,993
General and administrative		<u>46,173</u>	<u>35,728</u>
Total operating and maintenance expenses		<u>218,391</u>	<u>196,872</u>
Operating income before depreciation		143,711	157,235
<i>DEPRECIATION</i>		<u>117,780</u>	<u>114,642</u>
Operating income		25,931	42,593
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		26,153	32,820
Interest expense		(75,473)	(79,846)
Amortization of debt issue costs		(876)	(876)
Operating grants		79	1,480
Other revenues		2,251	-
Transfers to County's General Fund		<u>(39,996)</u>	<u>(33,035)</u>
Loss before contributions		(61,931)	(36,864)
Capital contributions		<u>47,500</u>	<u>57,177</u>
Increase (decrease) in net assets		(14,431)	20,313
Net assets at beginning of year		<u>2,160,225</u>	<u>2,139,912</u>
Net assets at end of year		<u>\$ 2,145,794</u>	<u>\$ 2,160,225</u>

The accompanying notes to financial statements are an integral part of these statements.

Statements of Cash Flows

For the years ended September 30,	<u>2003</u>	<u>2002</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 360,888	\$ 354,085
Cash paid to suppliers for goods and services	(101,101)	(99,099)
Cash paid to employees for services	(110,169)	(99,625)
Net cash provided by operating activities	<u>149,618</u>	<u>155,361</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	1,311	1,128
Transfers to County's General Fund, net	(37,745)	(33,035)
Net cash used in non-capital financing activities	<u>(36,434)</u>	<u>(31,907)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	9,784	21,488
Principal payments - bonds, loans and notes	(40,158)	(37,249)
Interest paid	(95,771)	(88,407)
Proceeds from sale of property, plant and equipment	14	57
Acquisition and construction of capital assets	(123,599)	(129,507)
Contributions received	31,332	37,649
Net cash used in capital and related financing activities	<u>(218,398)</u>	<u>(195,969)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(737,705)	(938,468)
Proceeds from sale and maturity of investment securities	965,776	1,083,188
Interest on investments	25,426	33,931
Net cash provided by investing activities	<u>253,497</u>	<u>178,651</u>
Net increase in cash and cash equivalents	148,283	106,136
Cash and cash equivalents at beginning of year	<u>234,809</u>	<u>128,673</u>
Cash and cash equivalents at end of year	<u>\$ 383,092</u>	<u>\$ 234,809</u>

(Continued)

Statements of Cash Flows

(Continued)	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income		\$ 25,931	\$ 42,593
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		117,780	114,642
Provision for uncollectible accounts		30	1,239
Amortization of deferred charges		296	173
(Increase) decrease in assets:			
Accounts receivable		(2,888)	(907)
Inventory of materials and supplies		514	(1,461)
Other deferred charges		382	(4)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		4,560	682
Customer and developer deposits		(81)	(2,939)
Accrued interest payable		(169)	(341)
Liability for compensated absences		2,224	1,635
Other liabilities		21	4
Liability for self-insurance		<u>1,018</u>	<u>45</u>
Net cash provided by operating activities		<u>\$ 149,618</u>	<u>\$ 155,361</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$16.4 million and \$19.9 million in fiscal years 2003 and 2002, respectively.

The increase (decrease) in the fair value of investments were \$4.3 million and (\$1.4) million in fiscal years 2003 and 2002, respectively.

The accompanying notes to financial statements are an integral part of these statements.

SEPTEMBER 30, 2003 AND 2002**1. SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES***BASIS OF ACCOUNTING AND PRESENTATION*

The Miami-Dade Water and Sewer Department (the Department) functions as a self-supporting governmental enterprise fund of Miami-Dade County, Florida (the County). An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. Accordingly, its financial statements have been prepared on the accrual basis of accounting. The Department issues a separate comprehensive annual financial report and its financial statements are combined in the County's comprehensive annual financial report.

The accompanying financial statements combine the accounts of both the Water and Wastewater Systems to provide meaningful information with respect to the Department, with all transactions of the Department accounted for as one enterprise fund. All significant inter-system accounts and transactions have been eliminated.

During fiscal year 2002, the Department adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements: No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34*; and No. 38, *Certain Financial Statement Note Disclosures*.

These GASB statements required the presentation of a Management's Discussion and Analysis which precedes the financial statements, in addition to several changes to the financial statements such as: (1) the classification of the Equity section of the balance sheet into Net Assets with categories of Invested in capital assets, net of related debt, Restricted and Unrestricted; (2) the statement of revenues, expenses and changes in net assets formatted to report changes in net assets in place of changes in retained earnings; and (3) additional note disclosures to the financial statements.

APPLICATION OF FASB STANDARDS

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, offers the option of following all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, unless the latter conflict with or contradict GASB pronouncements, or not following FASB standards issued after such date. The Department elected the option not to follow FASB standards.

OPERATING/NONOPERATING REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing water and wastewater services. Nonoperating revenues and expenses include capital, financing, investing and other activities not related to the provision of water and wastewater services.

REVENUE RECOGNITION

All water and wastewater revenues are recognized when the related services are provided. Unbilled receivables have been estimated and accrued as revenue from the date of last reading of the meters based on the billing cycle. Unbilled accounts receivable were approximately \$25.1 million and \$21.8 million as of September 30, 2003 and 2002, respectively.

CAPITAL ASSETS

Property acquired with an initial, individual cost of \$750 or more and an estimated useful life in excess of one year is capitalized at cost. Major outlays for construction of capital assets and improvements are capitalized at cost. Expenditures for maintenance and repairs are expensed as incurred. Property contributions received from municipalities are recorded as capital assets by the Department at the acquisition cost to the municipality. Property contributed in aid of construction is capitalized at its estimated fair market value on the date received.

Annualized depreciation expense, expressed as a percent of depreciable capital assets, was 3.1% and 3.2% for the fiscal years ended September 30, 2003 and 2002, respectively. The Department utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and no gain or loss is recognized on retirements. Assets with a change

Notes to Financial Statements

in estimated life are depreciated based on net book value over the remaining life of the asset. Estimated useful lives of capital assets in service are as follows:

	Water System (Years)	Wastewater System (Years)
Structures and improvements	50	15-50
Equipment	3-30	3-20
Transmission mains and accessories	50-100	25-100

INVESTMENTS

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Department has opted to report money market and non-participating investments, with remaining maturities of one year or less at the time of purchase, at amortized cost which approximates market.

The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration (SBA) for the administration of the LGSF Pool. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the SBA. The LGSF Pool is a “2a-7 like” pool, and its account balance (amortized cost) can be used as fair value for financial reporting. The reported value of the LGSF Pool is the same as the fair value of the pool shares.

All other investments are carried at fair value. The net increase in the fair value of investments is included as part of interest income in the accompanying statements of revenues, expenses and changes in net assets.

STATEMENTS OF CASH FLOWS

For purposes of the statements of cash flows, the Department considers all highly liquid pooled investments with a maturity of three months or less when purchased to be cash equivalents.

INTEREST ON INDEBTEDNESS

Interest is charged to expense as incurred except for interest related to borrowings used for construction projects

which is capitalized, net of interest earned on construction funds borrowed. Interest incurred during the fiscal years ended September 30, 2003 and 2002 was \$88.2 million and \$90.5 million, respectively. Of these amounts, \$12.7 million and \$10.6 million were capitalized in fiscal years 2003 and 2002, respectively, net of interest earned on construction funds from tax-exempt borrowings of \$2.9 million and \$3.6 million in fiscal years 2003 and 2002, respectively.

The Department enters into interest rate swap agreements and the only related amounts recorded in the financial statements are the net interest expense along with amortization of fees paid or received resulting from these agreements.

During fiscal year 2003 the Department adopted the provisions of GASB Technical Bulletin No. 2003-1 (T.B. 2003-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which requires new disclosure requirements related to derivatives such as interest rate swap agreements.

BOND DISCOUNT AND ISSUANCE COSTS

Discounts on bonds and notes payable are amortized using the straight-line method over the life of the related bond issuances or term of the notes since the results are not significantly different from the interest method of amortization. Bond issuance costs are capitalized and amortized over the life of the bonds in a manner similar to discounts.

INVENTORY

Materials and supplies inventories are stated at the lower of average cost or market.

CAPITAL CONTRIBUTIONS

Effective October 1, 2000, the Department adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which requires recognition of external capital contributions to proprietary funds as revenues, not contributed capital.

GRANTS FROM GOVERNMENT AGENCIES

The Department records grants when all applicable eligibility requirements have been met. This normally occurs

as amounts are expended and become reimbursable from the granting agency.

PENSION PLAN

The Department contributes to the Florida Retirement System, a cost-sharing multi-employer plan. Contributions are expensed as incurred.

COMPENSATED ABSENCES

The Department accounts for compensated absences by accruing a liability for employees' compensation for future absences according to the guidelines of GASB Statement No. 16, *Accounting for Compensated Absences*.

COST ALLOCATION

Certain engineering overhead and other costs are generally allocated to capital projects and operating expenses using standard rates developed by independent consultants. The rate is based on various allocation bases which bear reasonable relation with the type of allocable expenditure.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the fiscal year 2002 financial statements have been reclassified to conform with the fiscal year 2003 presentation.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The Department pools all cash, cash equivalents and investments, with the exception of certain amounts which are required to be held in trust and escrow accounts under

the terms of bond ordinances and loan agreements. Various self-balancing account groups are participants in such pooling, sharing on a pro-rata basis in the pooled earnings, according to their respective average monthly balances.

DEPOSITS

The carrying amounts of the Department's local deposits were \$0.05 million and \$19.9 million as of September 30, 2003 and 2002, respectively. The bank balances at local depositories were \$5.4 million and \$25.8 million as of September 30, 2003 and 2002, respectively, consisting of demand deposit accounts only. All deposits are fully insured by Federal Depositary Insurance and a multiple financial institution collateral pool required by Chapter 280 Florida Statutes, "Florida Security for Public Deposits Act". Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with a State-approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

Cash on hand and cash held by other parties as of September 30, 2003 were approximately \$0.58 million.

INVESTMENTS

Department investments are made by the County in accordance with the provisions of Chapter 125.31 Florida Statutes and County Ordinance 84-47, "Investment and Reinvestment of Surplus Funds". Authorized investments include obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements, certificates of deposit and the Local Government Surplus Funds Trust Fund Investment Pool.

Investments can be grouped into three categories, based on who holds the securities, to give an indication of the

Notes to Financial Statements

level of risk assumed by the entity at year-end: (1) insured or registered, or securities held by the entity or its agent in the entity's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Investments classified as U.S. government and agency securities, commercial paper, and certificates of deposit were held by the Department's custodial bank in the Department's name, falling under the first risk category described above.

Guaranteed investment contracts (GIC) are not subject to credit risk classification because they are direct contractual investments and are not securities. These GIC provide for a guaranteed return on investments over a specified period of time. The Local Government Surplus Funds Trust Fund Investment Pool (LGSF Pool) is also not subject to credit risk classification because it is a "2a-7 like" pool.

The Department's investments at September 30, 2003 and 2002, including cash equivalents in the amount of \$382.5 million and \$214.2 million, respectively, are shown in the following table (in thousands):

	2003 Fair Value	2002 Fair Value
U.S. government and agency securities	\$322,079	\$402,861
Certificates of deposit	-	3,015
Commercial paper	67,235	290,399
GIC	180,916	189,537
LGSF pool	357,380	100,153
Total investments	<u>\$927,610</u>	<u>\$985,965</u>

3. RESTRICTED ASSETS

Certain bond ordinances and loan agreements require the Department to establish accounts to be used in accounting for proceeds and collateral pledged as a result of the various issues of debt. In many cases, the applicable ordinances refer to the restricted accounts as "funds". Such accounts are not "funds" as defined by the National Council on Governmental Accounting (NCGA) *Statement No. 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes, but are maintained as separate accounts. Restricted assets at September 30, 2003 and 2002 are presented in the following table (in thousands):

	2003	2002
Restricted Assets		
Debt Service	\$202,638	\$211,125
Construction	350,147	395,358
Renewal and Replacement	77,371	68,778
Plant Expansion	118,024	94,625
Self-Insurance	20,108	19,087
Total Assets	<u>\$768,288</u>	<u>\$788,973</u>

4. CAPITAL ASSETS

Capital asset activity during fiscal years 2002 and 2003 was as follows (in thousands):

	Balance 9/30/01	2002		Balance 9/30/02	2003		Balance 09/30/03
		Additions	Deletions		Additions	Deletions	
Capital assets, not being depreciated:							
Land	\$ 30,390	-	-	30,390	4,129	-	34,519
Construction work in progress	348,670	156,977	(160,047)	345,600	136,318	(141,583)	340,335
Total capital assets, not being depreciated	379,060	156,977	(160,047)	375,990	140,447	(141,583)	374,854
Capital assets, being depreciated:							
Structures and improvements	2,832,835	116,964	(8,792)	2,941,007	104,784	(7,350)	3,038,441
Equipment	639,954	43,083	(4,563)	678,474	42,218	(9,941)	710,751
Total capital assets, being depreciated	3,472,789	160,047	(13,355)	3,619,481	147,002	(17,291)	3,749,192
Less accumulated depreciation:							
Structures and improvements	(646,258)	(73,508)	8,796	(710,970)	(75,763)	7,349	(779,384)
Equipment	(315,085)	(41,134)	4,502	(351,717)	(42,017)	9,541	(384,193)
Total accumulated depreciation	(961,343)	(114,642)	13,298	(1,062,687)	(117,780)	16,890	(1,163,577)
Total capital assets, being depreciated, net	2,511,446	45,405	(57)	2,556,794	29,222	(401)	2,585,615
Total capital assets, net	\$ 2,890,506	202,382	(160,104)	2,932,784	169,669	(141,984)	2,960,469

5. LONG-TERM DEBT

Long-term debt includes various bonds, loans and notes payable which have been issued or approved by the County for the improvement of the Department's water and wastewater infrastructure, and defeasance of outstanding debt. General covenants, along with debt service requirements, are disclosed below. See Note 3, Restricted Assets, for a discussion of the accounts used in accounting for proceeds and collateral pledged as a result of the issuance of the various forms of debt.

The Department's debt instruments contain various covenants and restrictions, which among other things, (1) prohibit the Department from taking any action that could jeopardize its tax-exempt status, and (2) require the Department to meet certain financial tests. Management believes that the Department was in compliance with all such covenants and restrictions at September 30, 2003.

DADE COUNTY REVENUE REFUNDING BONDS, SERIES 1993

On December 23, 1993, \$409.4 million of Dade County Water and Sewer System Revenue Refunding Bonds, Series 1993 were issued to pay issuance costs and to refund or advance refund various obligations.

The Series 1993 Refunding Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2013, with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2003.

DADE COUNTY REVENUE BONDS, SERIES 1994

On February 4, 1994, \$431.7 million of Dade County Water and Sewer System Revenue Bonds, Series 1994, with variable interest rates, were issued to finance capital improvements to the water and wastewater systems. The variable rate is set by the Remarketing Agent (Smith Barney Shearson Inc.) based on the weekly rate the bond is sold for in that time period.

The Series 1994 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on the first Wednesday of October through the year 2022, with semi-annual interest due on the first Wednesday

of April and October of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2003.

DADE COUNTY REVENUE BONDS, SERIES 1995

On October 19, 1995, \$346.8 million of Dade County Water and Sewer System Revenue Bonds, Series 1995 were issued to finance capital improvements to the water and wastewater systems.

The Series 1995 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2025 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2003.

DADE COUNTY REVENUE BONDS, SERIES 1997

On January 30, 1997, \$437.2 million of Dade County Water and Sewer System Revenue Bonds, Series 1997 were issued to finance capital improvements to the water and wastewater systems.

The Series 1997 Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2026 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2003.

MIAMI-DADE COUNTY REVENUE BONDS, SERIES 1999A

On May 5, 1999, \$150 million of Dade County Water and Sewer System Revenue Bonds, Series 1999A were issued to finance capital improvements to the water and wastewater systems.

The Series 1999A Revenue Bonds are collateralized by the net operating revenues of the Department and are due serially on October 1 through the year 2029 with semi-annual interest due on April 1 and October 1 of each year. Net revenue requirements of at least 1.10 times the current year's debt service requirements were met in fiscal year 2003.

Notes to Financial Statements

CHANGES IN LONG-TERM LIABILITIES

A summary of the long-term liability activity during fiscal years 2002 and 2003 is presented in the following table (dollars in thousands):

Description	Outstanding Rate	Balance 09/30/01	2002		Balance 09/30/02	2003		Balance 09/30/03	Due in 2004
			Additions	Reductions		Additions	Reductions		
<i>Dade County Revenue Bonds</i>									
Series 1993	4.40%-5.00%	\$ 314,905	-	18,445	296,460	-	19,260	277,200	20,125
Series 1994	Variable*	420,630	-	660	419,970	-	695	419,275	735
Series 1995	4.10%-6.25%	338,460	-	3,030	335,430	-	3,165	332,265	3,305
Series 1997	4.50%-6.25%	425,150	-	6,480	418,670	-	6,800	411,870	7,110
Series 1999A	5.00%	150,000	-	-	150,000	-	-	150,000	-
Less: Unamortized Discount		(28,048)	-	(1,253)	(26,795)	-	(1,253)	(25,542)	-
Deferred amounts on refunding		(13,331)	-	(779)	(12,552)	-	(777)	(11,775)	-
Total revenue bonds		1,607,766	-	26,583	1,581,183	-	27,890	1,553,293	31,275
<i>State Loan Obligations</i>									
State Revolving Fund	2.56%-4.17%	133,130	22,365	8,530	146,965	9,959	10,225	146,699	9,965
<i>Notes Payable</i>									
City of North Miami	6.00%	1,118	-	177	941	-	187	754	198
Total long-term debt		1,742,014	22,365	35,290	1,729,089	9,959	38,302	1,700,746	41,438
<i>Other liabilities</i>									
Compensated absences		19,270	7,942	6,307	20,905	9,066	6,842	23,129	7,402
Self-insurance		18,952	1,858	1,813	18,997	3,092	2,074	20,015	4,233
Total long-term liabilities		\$ 1,780,236	32,165	43,410	1,768,991	22,117	47,218	1,743,890	53,073

* Variable rates range from 0.65%-2.05% and 0.85%-2.15% in fiscal years 2003 and 2002, respectively.

DEBT SERVICE REQUIREMENTS

As of September 30, 2003, the Department's debt service requirements to maturity and net swap payments, assuming current interest rates remain the same, for their term were as follows (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Maturing in Fiscal Year	Revenue Bonds			State Loans		Notes Payable		Total		
	Principal	Interest	Swaps**	Principal	Interest	Principal	Interest	Principal	Interest	Swaps**
2004	\$ 31,275	65,360	13,276	9,965	4,425	198	40	41,438	69,825	13,276
2005	32,720	63,899	13,245	11,285	4,421	211	28	44,216	68,348	13,245
2006	34,270	62,281	13,213	11,725	3,980	224	15	46,219	66,276	13,213
2007	36,035	60,469	13,179	11,881	3,591	121	2	48,037	64,062	13,179
2008	37,965	58,510	12,734	10,529	3,215	-	-	48,494	61,725	12,734
2009-2013	222,015	260,470	29,618	53,092	10,616	-	-	275,107	271,086	29,618
2014-2018	287,420	209,714	18,381	30,191	3,283	-	-	317,611	212,997	18,381
2019-2023	376,320	167,248	2,380	8,031	531	-	-	384,351	167,779	2,380
2024-2028	430,170	79,829	(6,577)	-	-	-	-	430,170	79,829	(6,577)
2029-2030	102,420	7,744	-	-	-	-	-	102,420	7,744	-
	1,590,610	1,035,524	109,449	146,699	34,062	754	85	1,738,063	1,069,671	109,449
Unamortized Discount & Deferred Amounts	(37,317)	-	-	-	-	-	-	(37,317)	-	-
Total	\$ 1,553,293	1,035,524	109,449	146,699	34,062	754	85	1,700,746	1,069,671	109,449

**Net receipts are shown in ().

STATE REVOLVING FUND

Under the State Revolving Fund program, the Department has received various loan commitments for the construction of water and wastewater treatment facilities. Draws to date against committed loans as of September 30, 2003 are detailed in the following table (in thousands). Related payments of principal and interest are due through the year 2021.

<u>Loan #</u>	<u>Commitments</u>	<u>Draws to date</u>	<u>Closed out Loans</u>
375310	\$ 45,906	\$ 45,906	06/07/99
377400	36,402	36,402	06/07/99
377450	27,831	27,831	05/18/01
377470	11,959	11,959	08/21/00
377490	3,098	3,098	05/02/01
377500	28,523	24,996	12/01/03
377650	2,618	2,618	08/08/03
377670	10,251	3,604	10/27/03
377860	6,200	2,922	active
377870	6,093	4,412	active
37788P	18,269	3,252	active
300010	28,788	28,788	active
300080	4,691	4,691	04/28/03
	<u>\$230,629</u>	<u>\$200,479</u>	

No further draws will be made against closed loans.

The Department has agreed to maintain rates, together with other pledged revenues, sufficient to provide “net revenues” equal to at least 1.15 times the annual loan payments after meeting the primary debt service requirements. Reserve and debt service funding requirements, as required by the agreements, were met in fiscal year 2003.

NOTES PAYABLE

Outstanding notes payable represents a non-collateralized note issued in 1979 in connection with the acquisition of the North Miami sanitary sewage ocean outfall line. Such note is subordinate debt maturing in 2007.

INTEREST RATE SWAP AGREEMENTS

The Department is currently a party to three interest rate swap agreements: one relating to the Series 1994 Revenue Bonds, one swap relating to the Series 1995 Revenue Bonds and another swap relating to the Series 1997 Revenue Bonds. The debt service requirements to maturity

presented in the above related table are shown net of these agreements.

Series 1994 Interest Rate Swap

The swap agreement relating to the Series 1994 Bonds is between the Department and AIG Financial Products Corporation, and it's a variable to fixed rate swap (bonds issued as variable, swapped to fixed rate mode). The Department's objective with this swap was to obtain a lower fixed rate than was available at the time of issuance of the related bonds. The swap calculations are based on a notional amount which amortizes with the Series 1994 Bonds and is set at \$419.3 million for the current fiscal year. The Department owes interest to the counterparty, calculated at a 5.28% annual fixed rate on the notional amount, and in return the counterparty owes the Department interest at a variable rate that matches the variable rate payable on the bonds. The swap became effective on February 4, 1994 and it terminates on October 5, 2022, same date as for the Series 1994 Bonds.

Fair Value. As of September 30, 2003, based on an estimated mark-to-mid-market assessment, the swap had a negative fair value of \$90 million. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bond, creating a lower synthetic interest rate.

Credit Risk. AIG Financial Products Corporation is rated AAA by Fitch Ratings. The Department is not exposed to credit risk on this swap.

Basis Risk. Counterparty is paying the same variable rate as the Department's obligation to the bondholders. The Department is not exposed to basis risk. However, in the event that the variable rate index were no longer issued then the rate would convert to an alternate rate, based on a percentage of LIBOR. In that event, the Department would be exposed to basis risk.

Series 1995 Interest Rate Swap

The swap relating to the Series 1995 Bonds is between the Department and Merrill Lynch Capital Services, Inc., and it is a fixed to variable rate swap (bonds issued as fixed, swapped to variable after June 15, 2008;

Notes to Financial Statements

with option to terminate on such date). The Department entered in this interest rate swap to lower its overall cost of borrowing. The swap became effective on December 15, 1993 and amended on August 26, 1998. It initially provided for the Department to receive payments at a fixed rate of 4.85% and to make payments at a variable rate based on the BMA index. The swap included an option, exercisable by the counterparty, for the Department to receive payments at a variable rate based on the BMA index and to make payments at a fixed rate of 4.40%. This agreement was further amended on February 26, 2001 to provide for: (i) the extension of the termination date to June 15, 2020; (ii) the association of the swap with the Department's Series 1995 Bonds from the Series 1993 Refunding Bonds; (iii) an option in favor of the counterparty to terminate the agreement on June 15, 2008; (iv) an increased fixed rate of 4.902%; (v) an additional fixed rate of 0.323% which survives the one day termination option; and (vi) a notional amount declining from \$215 million commencing September 25, 2015, to \$154 million as of September 19, 2019, in step with the Series 1995 Bonds. On September 20, 2001, the counterparty exercised the option to receive payments from the Department at the fixed rate of 4.40% and make payments at a variable rate based on the BMA index. The net effect of the exercised option was for the Department to pay a fixed rate of 4.40% until June 15, 2008, and then a variable rate to the termination date. The Department receives from the counterparty a fixed rate of 5.225% of the notional amount.

Fair Value. As of September 30, 2003, based on an estimated mark-to-mid-market assessment, the fair value of the swap was a positive \$2.8 million.

Credit Risk. Merrill Lynch Capital Services, Inc. is rated A1 by Moody's Investor Service, Inc., and A+ by Standard and Poor's Rating Services. Credit risk is presumed to be minimal, or no greater than at the swap start date.

Termination Risk. Counterparty has the option to partially terminate the swap on June 15, 2008. No amounts shall be payable by either party in respect of such termination.

Interest Rate Risk. Through June 15, 2008, the Department receives a net payment of 0.825%, therefore there is

no interest rate risk through that date. After June 15, 2008, should the counterparty exercise the option and terminate, the counterparty will pay the Department 0.323% on the notional amount until June 15, 2020. If the counterparty does not terminate on June 15, 2008; then the Department will make payments based on the BMA index, thereby the Department will be exposed to interest rate risk that short term interest rates will rise over the next twenty years to the point where the variable interest rates paid by the Department would exceed the new fixed rate received by the Department.

Series 1997 Interest Rate Swap

The swap agreement relating to the Series 1997 Bonds is between the Department and RFPC Ltd., a division of Rice Financial Products Company. It is a variable to variable swap (bonds issued as fixed, enhanced by basis swap). The Department entered in this interest rate swap to lower its overall cost of borrowing. The swap became effective on August 27, 1998, and initially provided for the Department to pay BMA divided by 0.604 of the outstanding notional amount of \$114.5 million and the counterparty to pay the Department LIBOR + 1.28% of the outstanding notional amount, with such notional amount to be reduced each October 1, commencing on October 1, 2010 as set forth in a schedule attached to the confirmation. The swap had a termination date of October 1, 2013. On July 18, 2002, said swap was amended to provide: (i) the association of the swap with the Department's Series 1997 Bonds from the Series 1993 Refunding Bonds; (ii) an increase of the notional amount from \$114.5 million to \$200 million to be reduced each October 1, commencing on October 1, 2021 as set forth in a predetermined reduction schedule; (iii) the extension of the termination date to October 1, 2026, and (iv) an increase to the constant from 1.28% to 1.455%.

Fair Value. As of September 30, 2003, based on an estimated mark-to-mid-market assessment, the fair value of the swap was a negative \$6.5 million.

Credit Risk. RFPC Ltd., a division of Rice Financial Products Company, is guaranteed by AMBAC, rated Aaa by Moody's Investor Service, Inc. and AAA by Standard and Poor's Ratings Services. Credit Risk is presumed to be minimal or no greater than at the swap start date.

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Interest Rate Risk. The principal risk associated with the swap is the relationship between the tax-exempt and the taxable markets, specifically the changes in the ratio between tax-exempt and taxable interest rates. If federal income tax rates are reduced during the term of the transaction, BMA (the tax exempt interest rate) would rise to levels that trade closer to taxable rates, i.e. LIBOR, and thus increase the payments owed by the Department to RFPC.

Basis Risk. LIBOR and BMA are independent variable rate indexes, the Department is exposed to basis risk.

DEFEASED DEBT

On December 23, 1993, the Department defeased the bonds listed in the table below (in thousands). The proceeds of the new bond issue, Dade County Water and Sewer System Revenue Bonds, Series 1993, were invested in direct obligations of the U.S. government and placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded obligations. Accordingly, these refunded obligations are considered to be defeased and the assets held in trust have not been included in the accompanying financial statements.

	Final Maturity Defeased	Principal Amount Defeased	Principal Balance Sept. 30, 2003	Principal Balance Sept. 30, 2002
Dade County Water System				
Revenue Refunding Bonds, Series 1992	06/01/04	\$36,245	-	Redeemed

6. RECEIVABLES

Receivables at September 30, 2003, were as follows (in thousands):

	2003
Trade accounts	\$80,342
Nonretail accounts	9,024
Other County funds	5,145
Other governments	529
Gross receivables	95,040
Less: allowance for doubtful accounts	(20,797)
Net receivables	<u>\$74,243</u>

7. PAYABLES

Payables at September 30, 2003, were as follows (in thousands):

	2003
Other County funds	\$14,304
Vendors	13,519
Other governments	10,912
Salaries and benefits	8,409
Contractors	5,590
Other	219
Total payables	<u>\$52,953</u>

8. PENSION PLAN

The Department, as an agency of the County, participates in the Florida Retirement System (the FRS), a cost-sharing multi-employer public employment retirement system, which covers substantially all of the Department's full-time and part-time employees.

The FRS was created in 1970 by consolidating several employee retirement systems and it is administered by the State of Florida. All eligible employees as defined by the State of Florida who were hired after 1970, and those employed prior to 1970 who elected to be enrolled, are covered by the FRS.

Benefits under the "FRS Pension Plan", a defined benefit program, vest after six years of service. Employees who retire at or after age 62, with six years of credited service, are entitled to an annual retirement benefit, payable monthly for life. The FRS also provides for early retirement at reduced benefits and death and disability benefits. These benefit provisions and all other requirements are established by State of Florida statutes. Retirement benefits are pre-funded by employer contributions and participant contributions are not allowed.

The legislature created a new defined contribution program that was added to the menu of choices available to FRS members beginning June 2002. Formally created as the Public Employee Optional Retirement Program, the "FRS Investment Plan" is available as an option for all current and future members, including renewed members (FRS retirees who have returned to FRS employment). The FRS Investment Plan is a defined contribution plan

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where the contribution amount is fixed by a set percentage determined by law and the contribution is made to an individual account in each participant's name. Participant contributions are not allowed. With a defined contribution plan, in which the monthly contribution rate is fixed, the final benefit will be the total account value (contributions plus investment earnings less expenses and losses) distributed during retirement.

The covered payroll for Department employees in the FRS for the years ended September 30, 2003 and 2002 was \$107.6 million and \$99.3 million, respectively, while the Department's total payroll was \$111.1 million and \$102.9 million for fiscal 2003 and 2002, respectively. Pension costs of the Department as required and defined by Florida statute ranged between 7.4% and 18.5% of gross salaries during fiscal 2003 and between 5.8% and 16.1% of gross salaries during fiscal 2002. For the years ended September 30, 2003, 2002, and 2001, the Department's actual contributions met all required contributions. These contributions aggregated \$6.8 million, \$7.1 million and \$8.4 million, respectively, which represented 6.3%, 7.2% and 8.7% of covered payroll, respectively, and 0.4%, 0.4% and 0.5% of the total contributions required of all participating agencies, respectively, for fiscal years 2003, 2002 and 2001.

Ten-year historical trend information is presented in the FRS' June 30, 2003 annual report. This information is useful in assessing the FRS' accumulation of sufficient assets to pay pension benefits as they become due. A copy of the Florida Retirement System' annual report can be obtained by writing to the Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, FL 32399-1560 or by calling (850) 488-5706.

9. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related injuries or illnesses to employees; natural disasters and employee health and accident. In the year ended September 30,

1987, the Department established a self-insurance program for general and automobile liability exposures, provided by Section 706 of County Ordinance 78-82, as amended.

Claims are administered by the County's Risk Management Division, and the program is based upon an actuarial study performed annually by consulting actuaries. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities also include an amount for claims that have been incurred but not reported (IBNR). Because actual claims liabilities depend on such complex factors as inflation, change in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

Changes in the balance of claim liabilities for the general and automobile self-insurance program during fiscal years 2003 and 2002 were as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$13,521	\$12,743
Claims and changes in estimates	2,129	1,256
Less: Payments	<u>(897)</u>	<u>(478)</u>
Balance at end of year	<u>\$14,753</u>	<u>\$13,521</u>

The Department participates in the workers' compensation self-insurance program of the County, administered by the Risk Management Division. Risk Management charges a "premium" to each County department based on amounts necessary to provide funding for expected payments during the fiscal year. The estimate of IBNR losses is performed by an independent actuary. The Department maintains a liability in the amount of \$5.3 million and \$5.5 million as of September 30, 2003 and 2002, respectively, for possible funding of these IBNR losses. The County maintains no excess coverage with independent carriers for workers' compensation. The Department's total self-insurance liability was \$20 million and \$19 million as of September 30, 2003 and 2002, respectively.

The Department also participates in the County's group health and life self-insurance program, administered by an independent administrator. The County charges a uniform "premium" per employee to each County department based on recent trends in actual claims experience and makes provisions for catastrophic losses. Current year premiums are adjusted for County-wide prior year actual claims experience.

The Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. CONTRIBUTIONS

A schedule of contributions during fiscal years 2003 and 2002 is presented below (in thousands):

	<u>2003</u>	<u>2002</u>
Contributed Facilities		
Developers	\$16,709	\$20,224
Customers	1,922	8,815
Connection charges	28,744	28,138
Other	125	-
Total additions	<u>\$47,500</u>	<u>\$57,177</u>

11. RELATED PARTY TRANSACTIONS

The Department provides water and wastewater services to other County departments as part of the normal course of business, based on regular retail rates. The Department also provides billing services to other County departments. The County provides various services to the Department which are charged using direct and indirect cost allocation methods. The Department reimburses the County (General Fund) for certain administrative services. The following table presents a list of providers of services and respective payments for the years ended September 30, 2003 and 2002 (in thousands):

	<u>2003</u>	<u>2002</u>
General Services Administration	\$11,997	\$15,063
General Fund	10,206	10,737
Information Technology	6,115	6,695
Parks and Recreation	4,967	22
Management and Budget	2,627	20
Solid Waste	1,931	2,107
Fire Rescue	10	1,504
Transportation	3	2,970
Other County Departments	3,265	3,569

In addition to the above payments, the Department had related payables of \$14.1 million and \$7.9 million at September 30, 2003 and 2002, respectively. The Department also had receivables from other County departments amounting to \$4.6 million and \$4.3 million at September 30, 2003 and 2002, respectively. The Department has every intention of paying the outstanding payables on a timely basis, and is confident it will collect the outstanding receivables.

The Department transferred \$40 million and \$33 million to the General Fund in fiscal years 2003 and 2002, respectively. The transfers to the General Fund have been classified in the financial statements as Transfers to County's General Fund.

The Department has also entered into other transactions with various County entities. These transactions arise from the normal course of business and in connection with the management of ongoing projects.

12. COMMITMENTS AND CONTINGENCIES

CONSTRUCTION

The Department had contractual commitments of \$54.1 million for plant and infrastructure construction at September 30, 2003.

LEGAL CONTINGENCIES

The County is a defendant in various actions brought by parties in the normal course of business of the Department. Based on consultation with the County Attorney's Office, it is the opinion of management that the ultimate resolution of these suits would not materially affect the financial position of the Department or its ability to conduct its business.

FEDERAL GRANTS

Federal grant awards are audited under the provisions of the Single Audit Act and Office of Management and Budget Circular A-133 to determine that the Department has complied with the terms and conditions of the grant awards. Federal grants received are also subject to audit by the federal grantor agency. It is management's opinion that no material liabilities will result from any such audits.

Notes to Financial Statements

REBATABLE ARBITRAGE EARNINGS

Federal tax law requires that arbitrage interest earnings be remitted to the federal government, unless the local government qualifies for an exemption. As of September 30, 2003 and 2002, the Department has recorded obligations to rebate approximately \$3.1 million and \$2.3 million, respectively, of interest earned on bond proceeds invested in taxable securities in excess of interest costs. These arbitrage rebates are payable five years from the date of the bond issuance and each five years thereafter. The ultimate amount of the obligation, if any, will be determined based on actual interest earned.

SETTLEMENT AGREEMENTS

In 1993, the County entered into a settlement agreement with the Florida Department of Environmental Protection (FDEP) resulting in very limited restrictions on new sewer construction in certain areas of the County until adequate capacity becomes available in the wastewater system. Subsequently, in 1994 and 1995, two consent decrees were entered into with the U.S. Environmental Protection Agency (EPA) whereby the Department accelerated its improvement program of the wastewater system, subject to a schedule of stipulated penalties if certain established completion dates are not met.

In December 1997, an Administrative Order on Consent (AOC) with the EPA became effective, which addressed alleged violations of federal and state laws regarding underground injection of treated wastewater. On April 16, 2002, the EPA notified the County that it was terminating the existing AOC effective August 1, 2002; based on the EPA's determination that the purpose of the decree had been fulfilled. The EPA further directed the County to negotiate a new consent order with the FDEP to address the continued use of the injection wells. The County negotiated a new consent order with the FDEP and on July 22, 2003, the Board of County Commissioners approved the draft consent order. It is anticipated that the new consent order will become effective at the end of February 2004. It requires the County to conduct hydrogeologic studies to determine the cause of any movement of fluid containing contaminants into the Upper Floridian aquifer, a portion of which is an underground source of drinking

water. The consent order will require the County to expend approximately \$200 million related to the construction of treatment upgrades, in the near future.

13. SUBSEQUENT EVENTS

In September 2003, the Board of County Commissioners approved several rate increases as part of the County Budget Ordinance for fiscal year 2004. On October 1, 2003 new miscellaneous fees and charges went into effect, as well as a 6.5% rate increase in the bill of the average (7,500 gallons per month) retail water and wastewater customer. Effective October 1, 2003, wholesale water rates experienced annual average increases of 8.6% to 10.5%. In addition, wholesale wastewater customers experienced an average annual rate increase of 2.4%.

On October 9, 2003, the County issued \$248.9 million of Miami-Dade County Water and Sewer System Revenue Refunding Bonds, Series 2003 to refund the Dade County, Florida Water and Sewer System Revenue Refunding Bonds, Series 1993 maturing after October 1, 2003.

Supplementary Financial Data

Bond Ordinance 93-134 requires the Department to establish certain restricted accounts to be used in accounting for proceeds and collateral pledged as a result of the debt. In many cases, the bond ordinance refers to the restricted accounts as “funds”. Such accounts are not “funds” as defined by *NCGA Statement 1: Governmental Accounting and Financial Reporting Principles* and, therefore, are not funds for financial reporting purposes.

Similarly, the Water and Wastewater Systems do not meet the above referenced definition and, therefore, combining statements are not presented. The following system schedules are furnished solely as supplementary information and are not required by GAAP.

Water System

Balance Sheets

	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	23,695	\$ 72,888
Investments		101,770	109,416
Accounts receivable (net of allowance for uncollectible accounts of \$10.7 million in 2003 and \$9.9 million in 2002)		33,451	35,874
Inventory of materials and supplies		12,130	12,360
Restricted cash and cash equivalents		37,247	40,239
Total current assets		<u>208,293</u>	<u>270,777</u>
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		119,954	6,420
Investments		166,123	274,976
Contracts receivable		147	96
Total restricted assets		<u>286,224</u>	<u>281,492</u>
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		4,741	5,049
Other deferred charges, net		2,063	2,445
Long-term receivable		2,296	-
Total other assets		<u>9,100</u>	<u>7,494</u>
<i>CAPITAL ASSETS:</i>			
Land		12,324	10,715
Structures and improvements		1,119,439	1,076,901
Equipment		224,583	213,098
Utility plant in service before depreciation		1,356,346	1,300,714
Less accumulated depreciation		305,446	282,360
Net utility plant in service		1,050,900	1,018,354
Construction work in progress		138,686	138,672
Total capital assets		<u>1,189,586</u>	<u>1,157,026</u>
Total noncurrent assets		<u>1,484,910</u>	<u>1,446,012</u>
Total assets		<u>\$ 1,693,203</u>	<u>\$ 1,716,789</u>

(Continued)

Water System

Balance Sheets

(Continued)	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	17,217	\$ 14,284
Customer and developer deposits		11,293	10,806
Current portion of long-term debt		1,017	1,385
Accrued interest payable		326	279
Rebatable arbitrage earnings		1,878	1,452
Liability for compensated absences		2,664	2,136
Other liabilities		594	573
Total current liabilities (payable from unrestricted current assets)		<u>34,989</u>	<u>30,915</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		4,936	6,813
Retainage payable		2,075	3,116
Current portion of long-term debt		15,688	14,814
Accrued interest payable		10,315	12,281
Liability for self-insurance		4,233	3,215
Total current liabilities (payable from restricted current assets)		<u>37,247</u>	<u>40,239</u>
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		423,784	438,345
State loan obligations, net		31,697	28,397
Liability for self-insurance		15,782	15,782
Liability for compensated absences		5,660	5,344
Total noncurrent liabilities		<u>476,923</u>	<u>487,868</u>
Total liabilities		<u>549,159</u>	<u>559,022</u>
NET ASSETS			
Invested in capital assets, net of related debt		844,753	830,706
Restricted for:			
Capital projects		88,951	70,518
Debt service		59,169	58,760
Unrestricted		151,171	197,783
Total net assets		<u>1,144,044</u>	<u>1,157,767</u>
Total liabilities and net assets		<u>\$ 1,693,203</u>	<u>\$ 1,716,789</u>

Water System

Schedules of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>OPERATING REVENUES:</i>			
Retail	\$	124,409	\$ 121,632
Wholesale		20,045	20,236
Other revenues		<u>10,302</u>	<u>9,227</u>
Total operating revenues		<u>154,756</u>	<u>151,095</u>
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Source of supply		5,248	4,728
Power and pumping		2,670	1,803
Purification		38,412	34,466
Transmission and distribution		21,086	19,357
Customer accounting		3,390	4,032
Customer service		8,745	8,546
General and administrative		<u>15,183</u>	<u>11,412</u>
Total operating and maintenance expenses		<u>94,734</u>	<u>84,344</u>
Operating income before depreciation		60,022	66,751
<i>DEPRECIATION</i>		<u>32,371</u>	<u>32,347</u>
Operating income		27,651	34,404
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		13,027	16,943
Interest expense		(20,731)	(21,089)
Amortization of debt issue costs		(308)	(308)
Operating grants		79	1,447
Other revenues		2,251	-
Transfers to County's General Fund		<u>(13,146)</u>	<u>(10,855)</u>
Income before contributions and transfers		8,823	20,542
Capital contributions		17,726	21,168
Transfer (from) reserves		<u>(40,272)</u>	<u>(18,414)</u>
Increase (decrease) in net assets		(13,723)	23,296
Net assets at beginning of year		<u>1,157,767</u>	<u>1,134,471</u>
Net assets at end of year		<u>\$ 1,144,044</u>	<u>\$ 1,157,767</u>

Water System

Schedules of Cash Flows

For the years ended September 30,	<u>2003</u>	<u>2002</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 156,404	\$ 142,185
Cash paid to suppliers for goods and services	(46,860)	(47,733)
Cash paid to employees for services	(45,114)	(39,948)
Transfer (from) reserves	<u>(40,272)</u>	<u>(18,414)</u>
Net cash provided by operating activities	<u>24,158</u>	<u>36,090</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	1,311	554
Transfers to County's General Fund, net	<u>(10,896)</u>	<u>(10,855)</u>
Net cash used in non-capital financing activities	<u>(9,585)</u>	<u>(10,301)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	4,520	13,873
Principal payments - bonds, loans and notes	(16,093)	(14,289)
Interest paid	(26,292)	(22,363)
Proceeds from sale of property, plant and equipment	7	29
Acquisition and construction of capital assets	(52,515)	(66,272)
Contributions received	<u>7,197</u>	<u>9,212</u>
Net cash used in capital and related financing activities	<u>(83,176)</u>	<u>(79,810)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(253,162)	(580,590)
Proceeds from sale and maturity of investment securities	370,077	659,424
Interest on investments	<u>13,037</u>	<u>19,679</u>
Net cash provided by investing activities	<u>129,952</u>	<u>98,513</u>
Net increase in cash and cash equivalents	61,349	44,492
Cash and cash equivalents at beginning of year	<u>119,547</u>	<u>75,055</u>
Cash and cash equivalents at end of year	<u>\$ 180,896</u>	<u>\$ 119,547</u>

(Continued)

Water System

Schedules of Cash Flows

(Continued)	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income		\$ 27,651	\$ 34,404
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		32,371	32,347
Provision for uncollectible accounts		800	697
Transfer (from) reserves		(40,272)	(18,414)
(Increase) decrease in assets:			
Accounts receivable		(1,902)	(10,331)
Inventory of materials and supplies		230	(797)
Other deferred charges		382	(4)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		2,933	(556)
Customer and developer deposits		35	(1,583)
Accrued interest payable		47	(343)
Liability for compensated absences		844	621
Other liabilities		21	4
Liability for self-insurance		<u>1,018</u>	<u>45</u>
Net cash provided by operating activities		<u>\$ 24,158</u>	<u>\$ 36,090</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$10.5 million and \$12.4 million in fiscal years 2003 and 2002, respectively.

The increase (decrease) in the fair value of investments were \$2.1 million and (\$723,998) in fiscal years 2003 and 2002, respectively.

Water System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2003

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance under <u>(over)</u>
Source of supply	\$ 6,601	\$ 5,248	\$ 1,353
Power and pumping	2,211	2,670	(459)
Purification	43,000	38,412	4,588
Transmission and distribution	20,920	21,086	(166)
Customer accounting	4,183	3,390	793
Customer service	10,513	8,745	1,768
General and administrative	<u>17,056</u>	<u>15,183</u>	<u>1,873</u>
Totals	<u>\$ 104,484</u>	<u>\$ 94,734</u>	<u>\$ 9,750</u>

Wastewater System

Balance Sheets

	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash and cash equivalents	\$	20,886	\$ 3,735
Investments		13,890	32,071
Accounts receivable (net of allowance for uncollectible accounts of \$10.1 million in 2003 and \$10.9 million in 2002)		38,496	36,741
Inventory of materials and supplies		7,948	8,232
Restricted cash and cash equivalents		<u>50,866</u>	<u>63,350</u>
Total current assets		<u>132,086</u>	<u>144,129</u>
<i>NONCURRENT ASSETS:</i>			
<i>RESTRICTED ASSETS:</i>			
Cash and cash equivalents		130,444	48,177
Investments		263,360	355,269
Contracts receivable		147	370
EPA grants receivable		<u>-</u>	<u>76</u>
Total restricted assets		<u>393,951</u>	<u>403,892</u>
<i>OTHER ASSETS:</i>			
Deferred debt issue costs, net		11,147	11,715
Other deferred charges, net		<u>1,012</u>	<u>1,309</u>
Total other assets		<u>12,159</u>	<u>13,024</u>
<i>CAPITAL ASSETS:</i>			
Land		22,195	19,675
Structures and improvements		1,919,002	1,864,106
Equipment		<u>486,168</u>	<u>465,376</u>
Utility plant in service before depreciation		2,427,365	2,349,157
Less accumulated depreciation		<u>858,131</u>	<u>780,327</u>
Net utility plant in service		1,569,234	1,568,830
Construction work in progress		<u>201,649</u>	<u>206,928</u>
Total capital assets		<u>1,770,883</u>	<u>1,775,758</u>
Total noncurrent assets		<u>2,176,993</u>	<u>2,192,674</u>
Total assets		<u>\$ 2,309,079</u>	<u>\$ 2,336,803</u>

(Continued)

Wastewater System

Balance Sheets

(Continued)	September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
LIABILITIES			
<i>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses	\$	24,636	\$ 23,009
Customer and developer deposits		5,057	5,173
Current portion of long-term debt		6,678	6,237
Accrued interest payable		235	451
Rebatable arbitrage earnings		1,225	896
Liability for compensated absences		<u>4,738</u>	<u>4,706</u>
Total current liabilities (payable from unrestricted current assets)		<u>42,569</u>	<u>40,472</u>
<i>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED CURRENT ASSETS):</i>			
Accounts payable and accrued expenses		6,164	8,905
Retainage payable		2,254	4,297
Current portion of long-term debt		18,055	18,107
Accrued interest payable		<u>24,393</u>	<u>32,041</u>
Total current liabilities (payable from restricted current assets)		<u>50,866</u>	<u>63,350</u>
<i>NONCURRENT LIABILITIES:</i>			
Revenue bonds payable, net		1,098,234	1,112,918
State loan obligations, net		105,037	108,132
Notes payable, net		556	754
Liability for compensated absences		<u>10,067</u>	<u>8,719</u>
Total noncurrent liabilities		<u>1,213,894</u>	<u>1,230,523</u>
Total liabilities		<u>1,307,329</u>	<u>1,334,345</u>
NET ASSETS			
Invested in capital assets, net of related debt		740,833	755,896
Restricted for:			
Capital projects		116,746	99,953
Debt service		108,762	108,042
Unrestricted		<u>35,409</u>	<u>38,567</u>
Total net assets		<u>1,001,750</u>	<u>1,002,458</u>
Total liabilities and net assets		<u>\$ 2,309,079</u>	<u>\$ 2,336,803</u>

Wastewater System

Schedules of Revenues, Expenses and Changes in Net Assets

	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>OPERATING REVENUES:</i>			
Retail	\$	149,301	\$ 142,334
Wholesale		49,520	52,909
Other revenues		8,525	7,769
Total operating revenues		<u>207,346</u>	<u>203,012</u>
<i>OPERATING AND MAINTENANCE EXPENSES:</i>			
Collection system		13,193	12,793
Pumping		23,115	22,828
Treatment		48,579	43,086
Customer accounting		1,183	3,058
Customer service		6,597	6,447
General and administrative		30,990	24,316
Total operating and maintenance expenses		<u>123,657</u>	<u>112,528</u>
Operating income before depreciation		83,689	90,484
<i>DEPRECIATION</i>		<u>85,409</u>	<u>82,295</u>
Operating income (loss)		(1,720)	8,189
<i>NON-OPERATING REVENUES (EXPENSES):</i>			
Interest income		13,126	15,877
Interest expense		(54,742)	(58,757)
Amortization of debt issue costs		(568)	(568)
Operating grants		-	33
Transfers to County's General Fund		(26,850)	(22,180)
Loss before contributions and transfers		(70,754)	(57,406)
Capital contributions		29,774	36,009
Transfer from reserves		40,272	18,414
Decrease in net assets		(708)	(2,983)
Net assets at beginning of year		<u>1,002,458</u>	<u>1,005,441</u>
Net assets at end of year		<u>\$ 1,001,750</u>	<u>\$ 1,002,458</u>

Wastewater System

Schedules of Cash Flows

For the years ended September 30,	<u>2003</u>	<u>2002</u>
	(In thousands)	
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from customers	\$ 204,484	\$ 211,900
Cash paid to suppliers for goods and services	(54,241)	(51,366)
Cash paid to employees for services	(65,055)	(59,677)
Transfer from reserves	<u>40,272</u>	<u>18,414</u>
Net cash provided by operating activities	<u>125,460</u>	<u>119,271</u>
<i>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</i>		
Operating grants received	-	574
Transfers to County's General Fund, net	<u>(26,849)</u>	<u>(22,180)</u>
Net cash used in non-capital financing activities	<u>(26,849)</u>	<u>(21,606)</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</i>		
Proceeds from bond issues, loan agreements and notes	5,264	7,615
Principal payments - bonds, loans and notes	(24,065)	(22,960)
Interest paid	(69,479)	(66,044)
Proceeds from sale of property, plant and equipment	7	28
Acquisition and construction of capital assets	(71,084)	(63,235)
Contributions received	<u>24,135</u>	<u>28,437</u>
Net cash used in capital and related financing activities	<u>(135,222)</u>	<u>(116,159)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchase of investment securities	(484,543)	(357,878)
Proceeds from sale and maturity of investment securities	595,699	423,764
Interest on investments	<u>12,389</u>	<u>14,252</u>
Net cash provided by investing activities	<u>123,545</u>	<u>80,138</u>
Net increase in cash and cash equivalents	86,934	61,644
Cash and cash equivalents at beginning of year	<u>115,262</u>	<u>53,618</u>
Cash and cash equivalents at end of year	<u>\$ 202,196</u>	<u>\$ 115,262</u>

(Continued)

Wastewater System

Schedules of Cash Flows

(Continued)	For the years ended September 30,	<u>2003</u>	<u>2002</u>
			(In thousands)
<i>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</i>			
Operating income (loss)	\$	(1,720)	\$ 8,189
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		85,409	82,295
Provision for uncollectible accounts		(770)	542
Amortization of deferred charges		296	173
Transfer from reserves		40,272	18,414
(Increase) decrease in assets:			
Accounts receivable		(986)	9,424
Inventory of materials and supplies		284	(664)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		1,627	1,238
Customer and developer deposits		(116)	(1,356)
Accrued interest payable		(216)	2
Liability for compensated absences		1,380	1,014
Net cash provided by operating activities	\$	<u>125,460</u>	<u>\$ 119,271</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Property, plant and equipment contributions were received in amounts of \$5.9 million and \$7.5 million in fiscal years 2003 and 2002, respectively.

The increase (decrease) in the fair value of investments were \$2.2 million and (\$664,196) in fiscal years 2003 and 2002, respectively.

Wastewater System

Schedule of Operating and Maintenance Expenses

Budget and Actual

For the year ended September 30, 2003

(In thousands)

	<u>Budget</u>	<u>Actual</u>	Variance under (over)
Collection system	\$ 14,811	\$ 13,193	\$ 1,618
Pumping	22,305	23,115	(810)
Treatment	47,758	48,579	(821)
Customer accounting	3,214	1,183	2,031
Customer service	7,930	6,597	1,333
General and administrative	<u>25,621</u>	<u>30,990</u>	<u>(5,369)</u>
Totals	<u>\$ 121,639</u>	<u>\$ 123,657</u>	<u>\$ (2,018)</u>

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